

MINUTES OF STATE BUDGET AND CONTROL BOARD MEETING

June 14, 2011 -- 10:00 A. M.

The Budget and Control Board (Board) met at 10:00 a.m. on Tuesday, June 14, 2011, in Room 252 in the Edgar A. Brown Building, with the following members in attendance:

Governor Nikki R. Haley, Chair;
Mr. Curtis M. Loftis, Jr., State Treasurer;
Mr. Richard Eckstrom, Comptroller General;
Senator Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee; and
Representative Daniel T. Cooper, Chairman, Ways and Means Committee.

Also attending were Budget and Control Board Executive Director Eleanor Kitzman; Chief of Staff Marcia Adams and Division Director Les Boles; General Counsel Edwin E. Evans; Governor's Deputy Chief of Staff for Policy, Budget, and Cabinet Affairs Ted Pitts; Treasurer's Chief of Staff Bill Leidinger; Comptroller General's Chief of Staff James M. Holly; Senate Finance Committee Budget Director Mike Shealy; Ways and Means Committee Chief of Staff Beverly Smith; Board Secretary Delbert H. Singleton, Jr., and other Budget and Control Board staff.

Adoption of Agenda for Budget and Control Board

Upon a motion by Mr. Cooper, seconded by Senator Leatherman, the Board adopted the agenda as amended to remove Regular Session items 3(k) and 3(l) concerning permanent improvement projects for the University of South Carolina.

Minutes of Previous Meeting

Upon motion by Mr. Eckstrom, seconded by Senator Leatherman, the Board approved the minutes of the May 2, 2011, Budget and Control Board meeting.

Blue Agenda

Upon a motion by Senator Leatherman, seconded by Mr. Cooper, the Board approved the blue agenda items, except as otherwise noted herein.

Division of General Services: Easement (Blue Agenda Item #1)

The Board approved the following easement in accordance with SC Code of Laws as

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 2

requested by the Division of General Services:

County Location:	Pickens
From:	Department of Natural Resources
To:	Clemson University Real Estate Foundation
Consideration:	\$10
Description/Purpose:	To grant of a right-of-way easement over land within the James Timmerman Natural Area at Jocassee Gorges for the purpose of providing ingress and egress to the Foundation's tract that is completely surrounded by lands of the Department of Natural Resources.

Information relating to this matter has been retained in these files and is identified as Exhibit 1.

Division of General Services: Real Property Transactions (Blue Agenda Item #2)

The Board approved the following property conveyances as requested by the Division of General Services:

- | | |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Agency: | Budget and Control Board (Adjutant General) |
| Acreage: | 0.32± acre |
| Location: | 1645 Stonewall Jackson Boulevard, Orangeburg |
| County: | Orangeburg |
| Purpose: | To sell property at the southwest corner of the Orangeburg National Guard Armory property for the construction of a rail access off of the main line of Norfolk Southern's railway. |
| Price/Transferred To: | \$950/Orangeburg County |
| Disposition of Proceeds: | To be divided between Budget and Control Board and the Adjutant General's Office pursuant to Proviso 80A.35. |
| (b) Agency: | Budget and Control Board (Deaf and Blind School) |
| Acreage: | 67± acres |
| Location: | 1318 Goldmine Road, Spartanburg |
| County: | Spartanburg |
| Purpose: | To accept and dispose of surplus real property received by the SC School for the Deaf and Blind from the Estate of John McClure and the Life Estate of Evie Lou Feagin. |
| Price/Transferred To: | Not less than appraised value/To be determined |
| Disposition of Proceeds: | To be divided between Budget and Control Board and the SC School for the Deaf and Blind pursuant to Proviso 80A.35. |
| (c) Agency: | Department of Transportation |
| Acreage: | 2± acres |

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 3

Location:	SC Route 81, Mount Carmel
County:	McCormick
Purpose:	To dispose of surplus real property.
Price/Transferred To:	Not less than appraised value/To be determined
Disposition of Proceeds:	To be retained by Department of Transportation.

(d) Agency: Greenville Technical College

Acreage:	2.763± acres
Location:	2 Maydell Avenue, Greenville
County:	Greenville
Purpose:	To dispose of surplus real property.
Price/Transferred To:	\$96,000/Quinn Satterfield, Inc.
Disposition of Proceeds:	To be retained by Greenville Technical College.

Information relating to this matter has been retained in these files and is identified as Exhibit 2.

Division of General Services: Department of Natural Resources Lease to the City of Cayce at Congaree Creek Heritage Preserve (Blue Agenda Item #3)

The Department of Natural Resources (DNR) requested approval to lease to the City of Cayce 1.0088 acres of land along the Congaree River within the Congaree Creek Heritage Preserve in Cayce. The Congaree Creek Heritage Preserve is a 627 acre tract dedicated as a heritage preserve in December 1998.

The City plans to use the leased area for the extension of the Cayce Riverwalk Park, and will construct an eight foot wide concrete walkway, and install light poles and security boxes on the leased area. One of DNR's goals in its management plan for the preserve is to encourage passive recreational use of land and water resources by the public and DNR believes that the extension of Riverwalk Park through the preserve is consistent with that goal. The archeological sites on the property will not be impacted as they are underground and not located near the proposed walkway.

The City has requested a 20 year lease term. As consideration for the lease, the City has committed to lease to DNR a 0.21 acre parcel it owns on US 321 adjacent to the preserve for development by DNR of and use by the public for a parking area and a canoe access point.

Mr. Eckstrom noted that there is no indication of what the swap is going to be to the state agency. He asked what benefit is this transaction for the State and what the cost will be to the State.

Appearing before the Board on this matter were Lisa Catalanotto with General Services and Ken Prosser and Sean Taylor with DNR. Mr. Eckstrom inquired as to the cost to construct the parking area and the canoe access. Mr. Prosser said there is an estimate of \$33,000 to construct the ramp on the one acre plot using the Heritage Land trust fund. He said that the cost for the City of Cayce on the other portion is about \$1.4 million for the entire riverwalk. In further discussion, Mr. Eckstrom asked whether DNR was committing to build a parking lot. Mr. Prosser said there already is a paved parking area in that location that might need some improvement. He said what they will need to do is build the dock for the canoes and that there are already two access points in different areas on the preserve. He said that this will give them a third access point for the public.

Mr. Eckstrom commented that he was curious about an archeological impact study from 2008 stating there would be no archeological impact. Mr. Prosser said that the main portion of the walkway would be about 50 feet away from the Congaree River and would not impact any archeological or wildlife resources.

The Board approved the proposed 20 year lease to the City of Cayce of 1.0088 acres at the Congaree Creek Heritage Preserve in Cayce.

Information relating to this matter has been retained in these files and is identified as Exhibit 3.

Division of Procurement Services: Procurement Audits and Certifications (Blue #4)

The Procurement Services Division, in accord with Section 11-35-1210, audited the following agencies and recommended certification within the parameters described in the audit reports for the following limits (*Total potential purchase commitment whether single-or multi-year contracts are used):

Department of Natural Resources (for a period of three years): supplies and services, \$350,000* per commitment; consultants, \$350,000* per commitment; construction contract change order, \$25,000 per change order; architect/engineer contract amendment,

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 5

\$5,000 per amendment.

The audit confirms the Procurement Office has the internal controls and expertise to ensure compliance with the applicable requirements for the certification. The Department requested to remain at its current certification levels.

Department of Parks, Recreation and Tourism (for a period of three years): supplies and services, \$100,000 per commitment; construction contract award. \$100,000 per commitment; construction contract change order, \$100,000 per change order; architect/engineer contract amendment, \$15,000 per amendment.

The audit confirms the Procurement Office has internal controls to ensure compliance with the applicable requirements for the certifications. Additionally, Parks, Recreation and Tourism hired a well-qualified and certified procurement officer.

The Board, in accord with Section 11-35-1210, granted procurement certification to the following agencies within the parameters described in the audit reports for the following limits (*Total potential purchase commitment whether single-or multi- year contracts are used):

Department of Natural Resources (for a period of three years): supplies and services, \$350,000* per commitment; consultants, \$350,000* per commitment; construction contract change order, \$25,000 per change order; architect/engineer contract amendment, \$5,000 per amendment.

The audit confirms the Procurement Office has the internal controls and expertise to ensure compliance with the applicable requirements for the certification. The Department requested to remain at its current certification levels.

Department of Parks, Recreation and Tourism (for a period of three years): supplies and services, \$100,000 per commitment; construction contract award. \$100,000 per commitment; construction contract change order, \$100,000 per change order; architect/engineer contract amendment, \$15,000 per amendment.

The audit confirms the Procurement Office has internal controls to ensure compliance with the applicable requirements for the certifications. Additionally, Parks, Recreation and Tourism hired a well-qualified and certified procurement officer.

Information relating to this matter has been retained in these files and is identified as Exhibit 4.

Local Government: Grant Request (Blue Agenda Item #5)

The Office of Local Government advised the Board of the following grant request:

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 6

Grantee:	Town of Honea Path
Grant Request:	\$95,500
Purpose/Description:	The project, known as the Shirmadon Street Sewer Replacement project, entails the open cut replacement and relocation of a defective run of existing gravity sewer line that runs congruent to Shirmadon Street for approximately 520 LF near Ervin Street. The existing 10-inch diameter sewer is in immediate need of repair and could collapse at any time causing an emergency service and environmental situation, particularly since the line serves a large portion of the Town.
Project Impact:	Completion of this project will prevent collapse of the existing line and will alleviate existing potential problems due to private property and accessibility issues.
Cost of Project:	\$95,500
OLG Recommendation:	\$95,500

The Board approved the following grant request as recommended by the Office of Local Government: Town of Honea Path, \$95,500.

Information relating to this matter has been retained in these files and is identified as Exhibit 5.

Executive Director: Revenue Bonds (Blue Agenda Item #6)

The Board approved the following proposal to issue revenue bonds:

Issuing Authority:	Jobs-Economic Development Authority
Amount of Issue:	Not Exceeding \$30,500,000 Solid Waste Disposal Facility Revenue Bonds
Allocation Needed:	-0-
Name of Project:	Tire International Environmental Solutions, Inc.
Employment Impact:	approximately 105 new, full-time jobs
Project Description:	establishing a solid waste disposal facility in Berkeley County
Note:	<i>public sale or privately placed</i>
Bond Counsel:	Ray E. Jones, Parker Poe Adams & Bernstein LLP

(Exhibit 6)

State Treasurer's Office: Unfunded Liability (Regular Session Item #1)

At its meeting on May 2, 2011, the Board accepted the actuarial valuations for the South Carolina Retirement Systems prepared by Cavanaugh Macdonald Consulting, LLC, dated

February 24, 2011, which valuations reflect the amortization period to liquidate the unfunded liability at 37.6 years, 32.8 years, 25.0 years, 16.0 years, and 22.0 years for the SCRS, PORS, GARS, JSRS, and SCNG systems, respectively. However, in accepting these valuations, the Board did not take action to maintain compliance with the 30-year maximum amortization period prescribed by the Governmental Accounting Standards Board (GASB). The credit rating agencies have expressed as a condition of maintaining its high credit rating, that the retirement plans show improvement in the funded ratio over time and continue making annual required contributions. Accordingly, the Board was asked to meet its fiduciary duties as trustee and stewardship to the taxpayer by taking action to maintain a 30-year amortization period as prescribed by GASB and continuing the policies of the board in support of this precedent; commit to policies that promote full funding of the annual required contribution; give deference to provisions of state law that require availability of funds to meet all normal and accrued liabilities on an actuarially sound actuarial basis; and through these actions, address the expressed concerns of the rating services that the State continue making its annual required contributions.

Mr. Loftis moved for adoption of regular session agenda item #1. There was no second to the motion.

The Board took no action on a request from the State Treasurer's Office to adopt the proposed increases in employer contributions beginning in July 2012, as recommended in the actuarial valuations received by the Board at its previous meeting.

Information relating to this matter has been retained in these files and is identified as Exhibit 7.

Office of State Budget: Agency Deficit Update – Department of Health and Human Services (Regular Session Item #2)

On February 8, 2011, the Board considered the Department of Health and Human Services' (DHHS) request to recognize an operating deficit within the Medicaid program estimated at \$227,786,198. At that meeting the Board determined that the operating deficit incurred by the Department was unavoidable and recognized the operating deficit not to exceed \$100,000,000. On March 22nd the Board subsequently increased the deficit recognition amount to a total of \$200,000,000. The Board further directed the Department to continue working with

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 8

the Office of State Budget to reduce the projected deficit and report back at the next regularly scheduled Board meeting.

In February DHHS began implementing a package of service reductions and eliminations that are projected to reduce expenditures within the Medicaid program by \$2,775,432 during this fiscal year. In addition, the Department is implementing a reduction in Managed Care administrative allowance estimated to save \$1,558,680 during the final quarter of this fiscal year. DHHS has implemented various human resources strategies that will allow it to transfer \$1,000,000 of personal service funds to Medicaid Service lines. The Department is awaiting final approval from the Centers for Medicare/Medicaid Services in order to realize additional savings resulting from a 3% provider rate reduction made possible through enactment of Senate Bill 434. Therefore, the balance of the operating deficit is estimated at no more than \$22,452,086.

Mr. Eckstrom commented that the Board needed to be very clear that it was not authorizing deficits with this action. He said the Board needed to also recognize that at the beginning of this fiscal year there were repeated reports of the state facing an \$800 million funding gap in this year's budget. He said that a large portion of that funding gap existed because of the State's Medicaid costs. Mr. Eckstrom noted that the State is facing increased Medicaid costs because the Stimulus Act that was passed mandated increases in participation in Medicaid. He said that the increased participation in Medicaid pushed up the cost to the State and the State's hands were tied by the Federal Government. He noted that the Healthcare Reform Act also had a similar affect on the State's cost structure with respect to the Medicaid plan as well as the spiraling cost of healthcare. Mr. Eckstrom said that a year ago DHHS was talking about having a funding gap between what was going to be in its budget and what it knew its cost structure was going to be. He said that this situation is not an instance of an agency letting its cost run out of control. He said they are now dealing with the reality that the funding gap exists. He commented that the State's goal was to use available to offset costs. Mr. Eckstrom commented that these costs were not unexpected and were known over a year ago. He noted that the State has excess funds and the constitution allows those excess funds to be used for instances like this. He stated the situation has been referred to as an operating deficit, but this is really a funding gap. He said the State is in a position to cover the gap; otherwise DHHS

would not be able to pay providers.

Senator Leatherman commented that the General Assembly bears some blame for this situation in that it tied the agency's hands last year by telling DHHS it could not reduce provider reimbursement rates. He said he has been very involved with the agency and believes they would have taken corrective action had the General Assembly allowed them to do so. He said, however, he needed to hear from the agency director that the agency would not run a deficit this year. Tony Keck, DHHS' director, appeared before the Board. Mr. Keck stated he agreed with Senator Leatherman and Mr. Eckstrom that there are fundamental structural issues in Medicaid that are a reality which the State has to live with unless the State totally opts out of the program. He said that is a significant choice given the matching dollars the State receives. He said those are structural issues that have to be understood going forward.

In further discussion, Governor Haley asked Mr. Keck how the negotiations were going with the providers. Mr. Keck said the negotiations have gone well and the feedback they have been getting from providers during the public comment period is what they have been talking about for months. He said there is a lot of work to be done on the horizon in terms of implementing the plan. He noted that they have some unallocated savings that they have to figure out how to get out of the system. He said given their conversations with providers he is confident that they will be able to do that, but cannot figure out right now what the unallocated savings will be. Mr. Eckstrom asked Mr. Keck what he meant by unallocated savings. Mr. Keck said that out of their \$125 million provider savings there is about \$12 million they have not figured out how to take out of the system. He noted that providers have been told that with the new authority DHHS can make cuts anytime during the year and that it is not unusual for agencies to make mid-year reimbursement reductions especially when they are not meeting anticipated savings. Mr. Eckstrom asked whether the providers have some expectation that the trajectory that has been set will somewhat flatten. Mr. Keck said that is the case and that it relates to where South Carolina is with regard to its managed care penetration. He said there are two big things happening with Medicaid: first, over the next year an additional 80,000 to 120,000 people will get into managed care which is projected to reduce DHHS' costs; and, second, the data they use to set their rates is getting better and when the rates are set in October they will have, for the first time, the encounter data which is very specific data that tells them

what the managed care organizations are spending. He stated that this will allow them to set rates accurately and that traditionally the rates come down as a result.

Governor Haley commented that she and Mr. Keck are not only working on cutting rates to providers, but also engaging them in conversation. She said they are getting into discussions on healthcare and what can be done to drive down the costs. She stated that Mr. Keck has been working with other Health and Human Services directors across the country to work on ways to get more flexibility in the states. She noted she sent a letter to Health and Human Services Secretary Kathleen Sebelius in that regard and asked Mr. Keck the status of the inquiry. Mr. Keck responded that the first letter Governor Haley sent regarding rate setting has been fairly, successfully heard in Washington. He said that it is anticipated that CMS is going to completely rewrite the rule that they put in place. He further said that the Obama Administration has come out with a friend of the court brief that said individual recipients and providers do not have standing in court to sue states over the rate setting. He said the Obama Administration has come out strong for the states to manage their own rates and not be sued by every provider who made a claim saying they are not getting enough money. He further noted that Governor Haley recently signed off on a letter along with 25 other governors telling Congress that something had to change and the states needed more flexibility. Governor Haley asked Mr. Keck whether his agency's budget for the fiscal year ending June 30th would be in the black or in the red. Mr. Keck replied that with the Board's recognition of the \$22.4 million the agency will be in the black. Governor Haley said that she is committed to her cabinet agencies not running a deficit. Senator Leatherman asked Governor Haley whether her statement applied to the next fiscal year to which she replied that is correct.

Mr. Eckstrom asked why DHHS might not need to draw down all of the \$22.4 million. Mr. Keck stated that they are implementing a management reorganization that will eliminate 200 vacant positions that have funding associated with them. He said that is expected to produce annualized savings of about \$5 million. He said that a million of that can be recognized this year which brought the deficit from \$23 million to \$22 million. He said the remainder is about \$5.9 million which is tied up in the CMS approval of the cuts which were effective on April 8th of this previous year. Mr. Keck said he does not want to recognize that until CMS has signed off on it. Mr. Eckstrom asked whether that could create a \$5.9 million surplus for the year to which Mr.

Keck responded that it could and in that case they would not ask for the entire \$22 million.

Senator Leatherman noted that Mr. Keck said some people have said the State should get out of the Medicaid program. He said the State cannot do that because that would deny coverage to the poor, blind, and disabled citizens of the State. He also said that money from the Medicaid program is paid to providers who employ people in the State. He said that money goes into the State's economy to the tune of about \$5 million. Mr. Keck said that getting out of the Medicaid program would essentially mean leaving \$0.70 of every dollar on the table. Mr. Keck said the question going forward is how the State will handle the expansion of coverage of several hundred thousand people. He said that is why there are ongoing efforts to opt out of the federal requirements under the Affordable Care Act.

Upon a motion by Mr. Eckstrom, seconded by Mr. Cooper, pursuant to Section 1-11-495 of the S.C. Code of Laws, the Board determined that the operating deficit incurred by the Department of Health and Human Services is unavoidable and recognized the balance of the operating deficit not to exceed the amount of \$22,452,086; directed that the presiding officers of the House and Senate be notified of the operating deficit; and directed the Office of State Budget to continue working with the Department to reduce the deficit.

Information relating to this matter has been retained in these files and is identified as Exhibit 8.

Office of State Budget: Permanent Improvement Projects (Regular Session Item #3)

Budget and Control Board approval was requested for the following permanent improvement project establishment requests and budget revisions which have been reviewed favorably by the Joint Bond Review Committee. Appearing before the Board on items 3(a) and 3(b) were John Smalls, Vice President for Finance at South Carolina State University (SCSU) and Al Lindsey, campus architect for SCSU and project manager for these projects.

Mr. Eckstrom noted that item (a) involved having to move a light pole that was in the bottom of a drainage ditch. He said the question was whether that was a design flaw, and if it was, whether SCSU could go against the engineers that did the design. Mr. Lindsey said that this was not a light pole, but a traffic signal light. He said it was part of an intersection and was a series of four stainless steel poles that supported the wires that supported the traffic signals. He

noted that the highway in question is Highway 21 and 178 which is also known as Chestnut Street. Mr. Lindsey said SCSU received funding to build an east entrance from Chestnut Street onto the main campus. He said the drainage ditch in question runs parallel to this four lane highway and is approximately 14 to 15 feet deep.

Mr. Lindsey said in further discussion that the ditch was originally supposed to have been covered over and that they were going to put in reinforced concrete pipe and backfill and put engineered fill in the ditch. He said SCSU could not afford to do that and left the ditch open and tried to work within the situation that was already there. He said SCSU had three different reviewing mechanisms in place for review that included their planning and construction staff, the Office of the State Engineer, and the District 7 branch of SC DOT. He stated all three review mechanisms were in place during the design process, the review process, and the approval process. Mr. Lindsey said that after they went through the entire review process and moved to construction, DOT District 7 had second thoughts about the foundation associated with two of the four traffic signal poles. He noted that those were the two poles that were going to sit very close to where the 14 foot deep ditch is. He said DOT did not feel there was enough “meat” associated with those foundations and they wanted to revisit the foundation. Mr. Eckstrom asked Mr. Lindsey whether he was talking about the stability of the foundation to which Mr. Lindsey responded that he was. Mr. Lindsey said because of silt build up there was a concern that the traffic signal poles would not remain standing. He stated that there were structural integrity issues associated with that so DOT wanted to go back and revisit the design on that and the project was redesigned after the fact. He said DOT had already approved the design, but things happen when construction begins and certain things that were not known suddenly become known. He said that is what happened in this case.

Mr. Eckstrom asked Mr. Lindsey why SCSU was installing the traffic signal poles rather than DOT. Mr. Lindsey said that DOT opted to let the project be administered by SCSU. He stated that this should have been a DOT project because the work was on DOT’s right-of-way. He said that since the ditch was actually the dividing line between the state right-of-way and SCSU, DOT made the call to let SCSU administer the project. Mr. Eckstrom asked whether DOT was going to let SCSU bear the cost. Mr. Lindsey said he recognized they were going to run over budget on the project and he met with the Orangeburg County Transportation Board to

request \$60,000 to add those funds to the project so they would stay solvent and be able to finish the project on time. Mr. Lindsey indicated that SCSU was given the \$60,000 for the project.

Governor Haley asked Mr. Lindsey whether he would agree that this was a design flaw and that DOT did not approve that the pole go into the ditch. Mr. Lindsey responded that DOT did approve the design. He said everyone including the District 7 branch of DOT approved the foundation prior to construction. He said when they entered their construction and administrative mode and was witnessing what was occurring with the foundation, DOT wanted to revisit the foundation design and decided to go back and shore up the foundation. He noted that the new foundation design superseded the original foundation design. Mr. Lindsey commented this was basically a foundation on steroids and they were assured structural integrity was in place. He stated they had three mechanisms for review and approval and at any point someone could have said before construction that they did not have sufficient structural integrity, but that is not what happened. He said he is part of the planning and construction staff on campus and they felt the design was sufficient; DOT felt the design was sufficient; and the State Engineer's staff thought the design was sufficient. He stated that as a result they moved into bidding and negotiation and construction and administration.

Mr. Eckstrom asked whether the pole was actually installed and then moved or was the decision made to move the proposed location. Mr. Lindsey said the pole was never really moved. He said there were never any traffic signal poles and this process started because the road had a two lane gravel road that intersected into this location. He said the new construction that brought cars onto the campus created a four way crossing. He stated that because of the traffic volume on Highway 21 and 178 they had to have traffic signal lights at that intersection in order to ensure the health, welfare, and safety of that crossing. Mr. Eckstrom asked if that was a DOT decision to which Mr. Lindsey responded that it was.

Governor Haley said her concern is that the money has already been spent so this problem cannot be fixed. She said both DOT and SCSU claim this was not their fault, but either way the problem is that money was overspent and that the Board did not know about it until after it was spent. She said her concern is that the Board did not have the option to step in and address the project going over budget. She said the Board needs assurance this will not happen again.

Mr. Loftis commented that if this were a large university with multiple projects, SCSU

would shift these costs to other projects. He said this happens all the time and he suspects this may be the smallest \$70,000 overrun that has ever been brought to the Board. He stated that this is a flaw in how accounting for these projects is done. He noted that this is a bifurcated process that manages huge deals in which the Board does not know exactly how it is done. Mr. Loftis commented that he appreciates that things did not go as well as they should have, but the conversation about the \$70,000 is a bit misplaced. He said this is just a small harbinger of a much larger problem of how money is accounted for once it has gone out the door. He said he brought this issue to the Board's attention when he first came into office, but has heard nothing back concerning the issue. He noted that the Treasurer's Office does not account for the money except for bonds. He said there is a significant accounting problem and SCSU should not bear the brunt of the problem. Governor Haley said in response that she is not blaming SCSU, but that at some point the Board has to be notified prior to the money being spent. Mr. Loftis said the only reason the Board knows about this is that SCSU did not have other projects going on at the time. He noted there is a long list of projects for other schools where they were shifted to other buildings. He said SCSU just happens to be a small school and they were capped out and could not slide it right past the Board like all the other schools do and the Board does not know about it. He commented that SCSU is taking the brunt for much larger transgressions.

Mr. Smalls commented SCSU has procedures in place to submit a revised A1. He said this was Mr. Lindsey's first project and they recognized that there were cost overruns and they needed to pay the additional costs. He said SCSU brought this matter to the Board to address the cost overrun. Mr. Smalls noted that SCSU now has procedures in place to ensure that project managers do not have the discretion to move forward if funds are not available.

With regard to item (b) Mr. Eckstrom said the question is whether the contractor is bonded and whether the University made an attempt to go against the contractor's performance bond to recover the additional costs. Mr. Lindsey said Medallion Athletics was the contractor of record and they were licensed and bonded. Mr. Eckstrom asked whether they were replaced. Mr. Eckstrom was advised that a subcontractor was replaced. Mr. Eckstrom further stated there is a \$64,000 payment in question and his concern is whether the \$64,000 can be recovered from the insurance company that issued the performance bonds. Mr. Lindsey said SCSU did do additional work on the project that concerned their football field. He said the crown of the

football field had to be increased to ensure there was proper drainage and they replaced natural grass with artificial turf. Mr. Eckstrom asked whether that was a contract change or design change. Mr. Lindsey said that it was a design change. Mr. Eckstrom further asked whether there were additional costs to replace the subcontractor because the contractor could not perform and whether SCSU made effort to go against the subcontractor's performance bond. Mr. Lindsey said additional costs were incurred because SCSU had to add an additional network of drain pipes to ensure proper drainage of the field after the contract was let. Mr. Eckstrom asked whether part of the additional cost was driven by a design change to which Mr. Lindsey said that is correct. Mr. Eckstrom asked Mr. Lindsey who designed the project. Mr. Lindsey replied that BP Barber of Columbia was the civil engineer of record. Mr. Eckstrom further asked Mr. Lindsey whether this was a design flaw. Mr. Lindsey said that he would not describe it as a design flaw because there are some things that do not become known until excavation begins.

Senator Leatherman asked whether soil excavation was done. Mr. Lindsey said that it was. Senator Leatherman said if that is the case why was this issue not known before construction began to which Mr. Lindsey said he could not answer that question. Senator Leatherman commented that his question needed to be answered. He asked Mr. Lindsey if he authorized the change and Mr. Lindsey responded that he did. Senator Leatherman further asked Mr. Lindsey if he questioned whether or not soil borings or ground exploration had been done to which Mr. Lindsey replied that they were done. Senator Leatherman said he wondered whether the firm that did the soil borings was at fault and asked why should SCSU have to pay for something that is someone else's fault. Mr. Lindsey commented that he was not at SCSU during the design process. Senator Leatherman asked whether incompetent people from SCSU were involved during the design period. Mr. Lindsey said yes [sic]. Senator Leatherman further asked whether there were other incompetent people at SCSU or just one group of incompetent people. He also asked whether the Board needed to look at SCSU to see that this situation is not happening over and over. Mr. Smalls responded that SCSU has a very competent staff and that the person that handled the project before Mr. Lindsey was a very competent person. Mr. Smalls said this came about as a result of transition and that SCSU does use due diligence.

Upon a motion by Mr. Cooper, seconded by Senator Leatherman, the Board approved the following permanent improvement project establishment requests and budget revisions which

have been reviewed favorably by the Joint Bond Review Committee, except that items (k) and (l) of this agenda item were withdrawn:

Budget Increases Carried Over From Prior Meeting

- (a) Summary 4-2011: JBRC Item 13. South Carolina State University
Project: 9626, Chestnut Street Entry Construction
Request: Increase budget to \$1,470,414 (add \$70,414 - \$60,000 Other, SCDOT and \$10,414 Other, Tuition and Fee funds) to cover an expenditure overdraft and close SC State's project for construction of a new Chestnut Street entry to the campus. The project and construction budget were established in January 2006 to construct the new campus entry, a round-about, a bridge over a drainage canal and a new security house with funds from the SC Department of Transportation (DOT). As the project neared completion, DOT directed that two change orders be made for realigning the existing ditch and reengineering traffic pole foundations. In February 2008, DOT allocated the funds for the change orders. However, the expenditure of the additional funds resulted in the final project cost exceeding the originally approved budget. The source of funds for the increase includes tuition and fees spent in 2008, which did not result in a student fee increase. Ratification of the budget increase is needed to cover all project expenditures and to close the project on the state's project accounting system.
- (b) Summary 4-2011: JBRC Item 14. South Carolina State University
Project: 9631, Dawson Stadium - New Playing Field Turf Installation
Request: Increase budget to \$641,912 (add \$63,912 Other, Tuition and Fee funds) to cover an expenditure overdraft and close SC State's project for installing new playing field turf at Dawson Stadium. The project and construction budget were established in August 2006 to replace the existing natural grass playing field with a synthetic grass playing field over a drainage mat. Because the project was originally expected to be under the \$500,000 permanent improvement project level, work on the field had already begun when a primary subcontractor was found to be unacceptable. Finding a replacement subcontractor resulted in the estimated project cost going above the \$500,000 level, requiring approval of establishment of the project. Because the turf installation had to be completed by the start of the home football season in mid-September 2006, the project was quickly approved with cost information available at that time. However, as construction proceeded, four unforeseen change orders were required that resulted in the final cost exceeding the originally approved budget. The source of funds for the increase was tuition and fees spent in 2006, which did not result in a student fee increase. Ratification of the budget increase is needed to cover all project expenditures and to close the project on the state's project accounting system.

Establish Project for A&E Design

- (c) Summary 5-2011: JBRC Item 1. College of Charleston
Project: 9646, Jewish Studies Center Addition
Request: Establish project and budget for \$67,500 (Other, College Fee funds) to begin design work to construct an approximately 15,000 square foot addition to the Jewish Studies Center at the College of Charleston. The addition will provide food service space for a kosher/vegetarian kitchen and dining room and future space for much needed classrooms and academic support offices. The first floor will house the dining room, which will be utilized by students, faculty, staff and the public. The second and third floors will be constructed as shell space to be upfit for use as classrooms and offices. The college's current classroom utilization is well below the statewide standard. No space currently exists for this type of food service operation and the college has estimated that 10% of its student body is Jewish. The source of funds is college fees which are currently available and will not result in a student fee increase.
- (d) Summary 5-2011: JBRC Item 2. College of Charleston
Project: 9647, Rita Hollings Science Center Renovation
Request: Establish project and budget for \$615,000 (Other, College Fee funds) to begin design work to renovate the Rita Hollings Science Center at the College of Charleston. The complete renovation of the 112,000 square foot facility will include reconfiguring existing space, replacing building systems, upfitting the facility for today's technology, and renovating the building's exterior envelope. The building was constructed in 1974 for a student body of 5,000 and the college now has more than 10,000 students. External studies have revealed the poor quality of the facility, which has a critical and negative impact on programs. The roof leaks and the facility has poorly operating HVAC systems, mold and mildew. Renovation will allow the college to consolidate teaching locations, currently spread across ten buildings, and to resolve health and safety issues. The source of funds is college fees which are currently available and will not result in a student fee increase.
- (e) Summary 5-2011: JBRC Item 3. Coastal Carolina University
Project: 9585, Parking/Pedway Construction
Request: Establish project and budget for \$60,000 (Other, Parking Operation funds) to begin design work to construct three parking lots and a pedway at Coastal Carolina. The work will include constructing three parking lots with approximately 1,600 spaces, constructing a pedway for safer bicycle and pedestrian travel for students in nearby housing, improving berms, and installing a retention pond, bridges over wetland areas, call boxes, cameras, and landscaping. The new parking lots and pedway will provide additional parking capability while the University reduces surface parking within the main campus academic core. The improvements will provide for increased pedestrian and bicycle safety, free sites for future academic buildings to

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 18

support the University's planned growth, and improve campus aesthetics with improved green spaces for student use.

- (f) Summary 5-2011: JBRC Item 4. University of South Carolina
Project: 6087, Football Practice Fields Renovations
Request: Establish project and budget for \$22,500 (Athletic funds) to begin design work to renovate the football practice fields across Bluff Road from Williams-Brice Stadium at USC. The work will include completely reworking the fields, removing the existing surface, installing new drain lines and irrigation system, regrading and sodding the area, constructing new filming towers, relocating and re-aiming existing lights and replacing the goal posts. The fields do not drain well following a major rain event which hampers the team's ability to practice outside. The fields are uneven and the site needs to be properly supported, compacted and re-graded.
- (g) Summary 5-2011: JBRC Item 5. University of South Carolina
Project: 6088, Softball Stadium Construction
Request: Establish project and budget for \$120,000 (Athletic funds) to begin design work to construct a new women's softball stadium at USC. The work will include demolishing the existing softball stands and support structures and constructing a new stadium with 1,350 permanent seats, new restrooms, a press box, concessions, dugouts, locker rooms and related facilities. The existing stadium seats only 700 fans, has inadequate support facilities and press box, and does not have adequate seating to host a major tournament. The new stadium will provide a competitive venue for women's softball, addressing equity in athletic facilities for women with amenities similar to and of the same quality as those in the baseball stadium.
- (h) Summary 5-2011: JBRC Item 6. State Board for Technical and Comprehensive Education
Project: 6030, Midlands Tech - Airport Support Center Upfit
Request: Establish project and budget for \$37,500 (Other, Local College funds) to begin design work to upfit the interior of the 34,600 square foot Support Center on the Airport Campus of Midlands Tech. The upfit of this warehouse space will allow for expanding the Industrial Technology and Continuing Education programs. The work will include building classrooms and offices on existing floor slab and providing utilities for lab equipment, storage space and new lighting. Enrollment has increased 122% in Industrial Technology programs and 160% in Continuing Education programs since 2005. The upfit will allow the two programs to utilize the same equipment and floor space to maximize space utilization, while minimizing travel between classrooms and labs. The source of funds is college capital fee funds which has not increased in ten years and will not result in a student fee increase.

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 19

- (i) Summary 5-2011: JBRC Item 7. State Board for Technical and Comprehensive Education
Project: 6031, Midlands Tech - Airport Morris Hall Addition
Request: Establish project and budget for \$16,500 (Other, Local College funds) to begin design work to construct an approximately 5,100 square foot addition to Morris Hall on the Airport Campus of Midlands Tech. The addition will include general purpose classrooms and student support spaces. Morris Hall was constructed in 1995 and is currently 9,960 square feet. Additional space is needed to meet increased enrollment, which is up 12% at the college and 10% on the Airport Campus since 2005. No general purpose classroom space has been added to the campus since 1989. The source of funds is college capital fee funds which has not increased in ten years and will not result in a student fee increase.
- (j) Summary 5-2011: JBRC Item 8. State Board for Technical and Comprehensive Education
Project: 6032, Piedmont Tech - Multipurpose Building Renovation
Request: Establish project and budget for \$10,500 (Other, Local Plant funds) to begin design work to renovate the 21,000 square foot Multipurpose Building at Piedmont Tech. The work will include making life safety upgrades, improving the exterior and entrance lobby, renovating restrooms, creating a catering warming room and storage, and making general cosmetic enhancements. The Multipurpose Building was designed primarily for sports events, but is now used for student, employee and community events. In 2009, the Greenwood Civic Center closed which increased the need and use of this building. The renovation is needed to keep the building in a good condition, to address code deficiencies, and to enhance the building's functionality.

Establish Construction Budget

- (k) Summary 5-2011: JBRC Item 9. University of South Carolina [item was withdrawn]
Project: 6080, Discovery I Third, Fourth and Fifth Floors Upfit
Request: Increase budget to \$15,500,000 (add \$15,342,500 Other, Grant Generated funds) to complete the upfit of the Discovery I building at USC. The project was established in December 2010 for pre-design work which is now complete. The building was constructed in 2008 as shell space and has been partially built out on the first and second floors. The work will include completing the build out and equipping for those floors to allow full occupancy and research capability for existing occupants. It will also include upfitting the remaining three floors for Centers of Economic Excellence Endowed Chairs in Cancer Therapeutics, Healthful Lifestyles, and Rehabilitation and Reconstruction and to provide offices, labs and research facilities for research staff and faculty in other health and medical areas. The upfit will be constructed to LEED Silver Certification and will include sustainable sites, water efficiency, energy and atmosphere, and indoor environmental quality energy savings and conservation

measures. The LEED cost benefit analysis shows a positive cost benefit of \$2,343,000 over 30 years. The agency reports the total projected cost of this project is \$15.5 million and additional annual operating costs of \$542,230 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is May 2012 and for completion of construction is July 2013. (See Attachment 1 of this agenda item for additional annual operating costs.)

(l) Summary 5-2011: JBRC Item 10. University of South Carolina [item was withdrawn]

Project: 6084, McBryde Renovations

Request: Increase budget to \$990,000 (add \$976,500 Other, Housing Maintenance Reserve funds) to renovate the McBryde Quadrangle residence halls at USC. The project was established in December 2010 for pre-design work which is now complete. The work will include painting ten hallways and 130 rooms, replacing interior doors and hardware, removing and replacing ceiling tiles in corridors, replacing water fountains, addressing life safety issues, replacing exterior and corridor doors, and installing card access. The work is needed to address immediate life safety issues and to improve living conditions for student residents, which include the pre-medical, music and pre-law learning communities. Energy savings and conservation measures will include the installation of energy efficient lighting. The agency reports the total projected cost of this project is \$990,000 and no additional annual operating costs will result from the project. The agency also reports the projected date for execution of the construction contract is October 2011 and for completion of construction is December 2011.

(m) Summary 5-2011: JBRC Item 11. USC - Aiken

Project: 9545, Pedestrian Bridge Construction

Request: Increase budget to \$1,300,000 (add \$1,285,000 - \$500,000 Other, Aiken County Transportation Committee, \$300,000 Other, Institutional, \$285,000 Other, Institutional Capital Project Funds and \$200,000 Other, SCDOT funds) to construct an elevated pedestrian bridge over the Robert Bell Highway at USC-Aiken. The project was established in December 2009 for pre-design work which is now complete. The work will include constructing an ADA compliant access ramp and stairs at each end of the bridge, sidewalks, lighting and signage. The bridge will be high enough to permit unrestricted traffic below it and wide enough to permit planned expansion of the highway in the future. USC-Aiken's baseball field and convocation center are located across the 55-mile per hour highway from the main campus, which creates potential safety issues for students attending athletic events, concerts and community activities at these facilities. Energy savings and conservation measures will include the use of indigenous plants for landscaping, energy saving solar panels and LED lights, construction materials with recycled content, and LEED approved construction practices. The agency reports the total projected cost of this project is \$1.3 million and additional annual operating costs of

\$500 will result in the three years following project completion. The agency also reports the projected date for execution of the construction contract is April 2012 and for completion of construction is March 2013. (See Attachment 2 of this agenda item for additional annual operating costs.)

(n) Summary 5-2011: JBRC Item 12. State Board for Technical and Comprehensive Education

Project: 6033, York Tech - Southeast Parking Lot A Expansion

Request: Establish project and budget for \$691,812 (Other, Local York County funds) to complete construction of a parking lot on the southeast side of the York Tech campus. The project was competitively bid as a non-permanent improvement project below the \$500,000 project level. After work began in April 2011, bad soil was found which must be undercut and disposed of off-site and new soil must be brought in to complete the parking lot. This additional work increased the cost above the \$500,000 project level, requiring the project to be established. The work will include removing existing soil, bringing in new soil, and installing asphalt, curbs, storm drainage, lighting, emergency call boxes, ADA ramps and landscaping. The college has experienced enrollment growth over the past three years of approximately 40%, which has created a deficit of parking spaces. Approximately 2,000 students are registered for classes a day, with only 1,900 parking spaces available. The use of grassy areas provides additional parking but becomes limited during periods of heavy rain. Energy savings and conservation measures will include the installation of energy efficient lighting, recyclable materials, drought resistant landscaping, and efficient storm water disposal. The agency reports the total projected cost of this project is \$691,812 and no additional annual operating costs will result from the project. The agency also reports construction started in April 2011 and the projected date for completion of construction is August 2011.

Information relating to this matter has been retained in these files and is identified as Exhibit 9.

Office of State Budget: Real Property Acquisitions (Regular Session Item #4)

With regard to item 4(c) Mr. Eckstrom asked what the source of funds was for the Reedy River Mitigation Trust Fund. Mr. Cooper said that the source is from funds left over from the Colonial Pipeline spill.

Upon a motion by Mr. Cooper, seconded by Senator Leatherman, the Board approved the following real property acquisition as recommended by the Office of State Budget:

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 22

- (a) **Agency:** **York Technical College**
Acreage: 4.12± acres
Location: On Highway 9 at Ballymena Road in Chester
County: Chester
Purpose: To acquire property adjacent to the existing Chester Center for future college growth.

Appraised Value: \$82,000
Price/Seller: \$82,000 / York Technical College Foundation
Source of Funds: Other, Local College Capital Project Reserve
Project Number: H59-6029
Environmental Study: Approved
Building Condition: N/A
Assessment:
Additional Annual Op: None
Cost/SOF:
Current Year Property Tax: N/A
Approved By: CHE on 4/28/11; JBRC on 6/1/11
- (b) **Agency:** **School for the Deaf and Blind**
Acreage: 67± acres
Location: At 1318 Goldmine Road in Spartanburg
County: Spartanburg
Purpose: To ratify the acceptance of land received from the estate of Evie Lou Feagin in November 2008 to clear its title.

Appraised Value: Donation
Price/Seller: N/A / Estate of Evie Lou Feagin
Source of Funds: N/A
Project Number: H75-9543
Environmental Study: Approved
Building Condition: N/A
Assessment:
Additional Annual Op: None
Cost/SOF:
Current Year Property Tax: N/A
Approved By: JBRC on 6/1/11
Additional Information: The property was left to the school by John McClure, subject to the life estate of Evie Lou Feagin who died in November 2008. Title to all property held in a state agency or department name has been transferred to the State under the control of the Budget and Control Board. These properties must be titled to the State of South Carolina.

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 23

(c) Agency:	Department of Natural Resources
Acreage:	500± acres
Location:	Along the Reedy River and Highway 252 near Boyd's Mill Pond.
County:	Laurens County
Purpose:	To protect water quality, conserve wildlife habitat, provide public recreational opportunities, and fulfill the goals of the Reedy River Final Restoration Plan for mitigation from the Colonial Pipeline oil spill.
Appraised Value:	\$1,440,000
Price/Seller:	\$1,300,000 / Tylan Plantation Properties, LLC
Source of Funds:	Other, Reedy River Mitigation Trust Fund
Project Number:	P24-9922
Environmental Study:	Approved
Building Condition Assessment:	N/A
Additional Annual Op Cost/SOF:	Additional annual operating costs are estimated to be \$20,000 for personnel and management costs and will be funded from Federal and Other, Timber Revenue funds. Approximately \$200,000 will also be spent to improve roads and prepare the property for public access and will be funded from the Other, Reedy River Mitigation Trust Funds.
Current Year Property Tax:	\$555.37
Approved By:	JBRC on 6/1/11
Additional Information:	This request also includes approval of an increase to the permanent improvement project of \$1,310,000 from the fund source noted above.

Information relating to this matter has been retained in these files and is identified as Exhibit 10.

Division of General Services: Sale of 332.40± Acres on Miles Jamison Road in Ladson to Dorchester County (Regular Session Item #5)

The Board approved on May 16, 2006, the sale of approximately 311 acres, and on January 30, 2007, the sale of an additional 20± acres on Miles Jamison Road in Ladson located in Dorchester County, commonly known as the Coastal Center Tract and formerly controlled by the Department of Disabilities and Special Needs, for not less than appraised value. Additionally, title to a 0.331± acre lot adjacent to the Coastal Center Tract known as Lot 3 on Beverly Drive in Chandler Village Subdivision, Phase III ("Beverly Drive Lot") has recently been secured by the State, which lot will provide additional access to the Coastal Center Tract. Collectively, the

property contains approximately 332.40 acres.

A contract for the sale of the Coastal Center Tract was originally awarded to a developer who submitted the highest bid as part of a competitive sealed bid process; however, the developer was ultimately unable to purchase the property. The contract stipulated that in the event the developer did not close on the property, the Beverly Drive Lot, which it owned, would be conveyed to the State of South Carolina. Legal action is now being finalized regarding the transfer of ownership in the Beverly Drive Lot to the State and to clear title clouded by the developer's failure to pay property taxes on the lot.

On January 13, 2011, Dorchester County, Dorchester School District #2 and the Town of Summerville were granted the exclusive right to make an offer for the purchase of the property within ninety days. Dorchester County requested the approval of the Board to purchase the Coastal Center Tract and the Beverly Drive Lot for \$3,000,000, which is below the current appraised value. The County proposes to pay the entire purchase price at closing. The County will have one hundred twenty (120) days from the date the sale is approved to perform inspections on the property and may cancel the contract during this period; thereafter, the County will have thirty (30) days to close on the sale of the property.

The proceeds from the sale of the property will be divided between the Board and the Department of Disabilities and Special Needs pursuant to 2010 S.C. Act No. 23, Part 1B, §80A.35.

Upon a motion by Mr. Eckstrom, seconded by Senator Leatherman, the Board approved the request of Dorchester County to purchase 332.40± acres known as the Coastal Center Tract and the Beverly Drive Lot for \$3,000,000. All of the Board members with exception of Mr. Cooper voted for this agenda item.

Information relating to this matter has been retained in these files and is identified as Exhibit 11.

Division of General Services: Department of Mental Health Conveyance of 165.70± Acres on the Bull Street Campus in Columbia to Hughes Development Corporation (Regular Item #6)

The South Carolina Department of Mental Health (DMH) Bull Street Campus in Columbia consists of 183.79± acres, which property is the site of the former South Carolina State Hospital

Minutes of Budget and Control Board Meeting
June 14, 2011 – Page 25

for the care and treatment of the state's mentally ill. Currently DMH is seeking an order from the Richland County Circuit Court declaring that 165.79± acres of the Bull Street Campus is no longer needed for the care and treatment of the mentally ill and that the property may be sold with the proceeds to be retained by DMH for the benefit of persons with mental illness. DMH intends to continue use of 18 acres of the campus, on which the William S. Hall Psychiatric Institute buildings are located.

NAI Avant was awarded the contract to market and sell the property in June 2008 following a competitive procurement process. Since that time, NAI Avant has marketed the property both nationally and internationally, resulting in negotiations and a contract dated December 16, 2010, with Hughes Development Corporation ("Hughes"), a South Carolina commercial real estate development company headquartered in Greenville. NAI Avant has stated to DMH that Hughes is a qualified purchaser financially able to complete the purchase. Two other offers were submitted but were not pursued.

The contract with Hughes for the sale of 165.79± acres on the Bull Street Campus is for a price of not less than \$15,000,000 to be paid over a term of seven years. Hughes deposited \$100,000 earnest money at the time the contract was signed. An additional \$1,400,000 will be deposited if the approval to sell the property is granted by the Circuit Court and the Board and upon satisfactory rezoning of the property by the City of Columbia. If the necessary approvals and rezoning are not obtained by December 15, 2011, the parties may agree to extend the deadline for satisfying these contingencies or either party may elect to cancel the contract. The earnest money is non-refundable after the contract contingencies are satisfied and will be applied towards the total purchase price. Hughes will pay the purchase price in accordance with the following minimum payment schedule:

Seven Year Payment Schedule

Year	Amount Received
1	\$ 1,500,000
2	\$ 3,800,000
3	\$ 6,000,000
4	\$ 9,000,000
5	\$12,000,000
6	\$14,000,000
7	\$15,000,000

Hughes will complete a parcel plan, dividing the property into parcels for marketing and sale to sub-developers, or Hughes may purchase one or more parcels itself. DMH and Hughes will work together to establish how much of the total purchase price will be assigned to each parcel identified by the parcel plan. DMH will retain ownership of the parcels until they are sold, and will transfer title to a new owner upon receipt of the amount assigned to the sold parcel. Beginning in the fourth year of the agreement, DMH will also receive 35% of the net profits from the sale of each parcel above the assigned parcel price and a 15% developer's fee to Hughes. DMH has the ability to extend the payment schedule for up to five years or may terminate the contract if the minimum payment schedule is not being met and appropriate progress is not being made in planning and marketing the property.

Currently, the Board has a parking lease with DMH on the Bull Street Campus for the Mills-Jarrett Building. Hughes is aware that parking must continue to be accommodated on the Bull Street Campus for the Mills-Jarrett Building in accordance with the lease terms, and has agreed through the purchase agreement to work with DMH and other necessary parties to find a mutually agreeable solution to continue accommodating the parking needs of the Mills-Jarrett Building users.

DMH requested approval to sell the property at the present time to Hughes for multiple reasons, including the elimination of maintenance and security costs associated with the property of approximately \$250,000 annually. The buildings on the property have been broken into and vandalized multiple times and the roads, pipes and other aspects of the campus infrastructure are all in a state of disrepair and deterioration. DMH believes the agreement with Hughes is fair and that finding another developer willing to take on the challenges this property presents may be difficult. Additionally, should the value of the property rise during the marketing phase, the agreement is structured in a way that allows DMH to potentially share in the increased value.

In addition to the sale of property at the Bull Street Campus, DMH sought the authority to enter into all future easements over its property for the development of the Bull Street Campus. As part of the case pending in Circuit Court, DMH is seeking an order from the court that such easements will not require the approval of the Attorney General pursuant to S.C. Code §44-11-110. DMH additionally requested the approval of the Board for all such easements.

Senator Leatherman said he is delighted to finally see this matter coming to an end. He

said this matter goes as far back as former Governor Sanford's first year in office. He said this is something the City of Columbia needs and DMH needs the money. Mr. Eckstrom said he has mixed feelings about the sale. He said the nostalgia associated with the property is something that will cause a lump in some people's throats. Senator Leatherman noted that a lot of the buildings on the property are deteriorating fast. Mr. Eckstrom said the maintenance of the buildings is one reason for not holding onto the property. Mr. Loftis stated that he is pleased that a quality, in state developer will be developing the property. Governor Haley commented that she is confident the development done by Hughes Development Corporation will be a source of pride.

Upon a motion by Senator Leatherman, seconded by Mr. Cooper, the Board approved the request of the Department of Mental Health to approve the Sale and Purchase Agreement dated December 16, 2010 between the Department of Mental Health and Hughes Development Corporation for the sale of 165.79± acres on the Bull Street Campus for not less than \$15,000,000, and approved all future easements over the property subject to the agreement and controlled by DMH necessary for the development of the Bull Street Campus.

Information relating to this matter has been retained in these files and is identified as Exhibit 12.

Division of Procurement Services: Ninety Day Report to the Board of John de la Howe School (Regular Session Item #7)

At the February 8, 2011, Board meeting, the Division of Procurement Services (the Division) presented the procurement audit for the John de la Howe School. The audit revealed that procurement records had been destroyed, and compliance with the procurement code could not be determined. The Board directed:

- the Division of Procurement Services to approve all procurements for the school prior to purchase orders being issued
- the Division to conduct a review of John de la Howe School's procurement practices in ninety (90) days

On May 12, 2011, the Division's audit staff conducted the follow up audit at John de la Howe and discovered 20 procurements had been made by the School without proper approval by the Division. The School had directly paid the invoices without issuing purchase orders. Some

of the procurements also violated the State's Procurement Code. As a result, the Division recommended the following actions:

- continued suspension of the John de la Howe School's procurement authority until the Board approves that it be restored
- complete audit of the paperwork from order point to payment for the procurements that are missing supporting documentation or that have not been approved by the Division as directed by the Board in the February 8, 2011 meeting
- all purchases for the school continue to be approved by the Division using the SCEIS system.
- all invoices for the school be approved by the Division prior to payment using the SCEIS system (prevents the School from directly paying for goods and services that should be acquired using the purchase order system)
- the Division conduct another complete audit in 90 days and, thereafter, report the results at the next scheduled Board meeting
- the Division conduct customized procurement training for the School's financial and procurement staff

Appearing before the Board on this matter was Thomas Mayer, Superintendent for John de la Howe. Governor Haley said her frustration with this situation is that she does not understand what is going on at the school. She commented that everyone deserves a chance to fix a problem, but the school was given 90 days to fix this problem and the problem has continued. Mr. Mayer said that in the simplest terms they had a competency issue with staff members that were in place. He said two of those staffers were in senior positions and they are no longer with the agency. He said when he took over the agency in June 2010 he recognized there were significant skills deficiencies in that division. He noted that the agency had not had a trained procurement specialist since 2007 and was using an administrative assistant who was filling the duties of a procurement specialist without having been formally trained in state government purchasing and procurement. He said that he immediately directed the agency's finance director to get the administrative assistant trained through the Materials Management Office. Mr. Mayer further noted that as part of his transition into the superintendant's position he requested the procurement audit for the agency because of the deficiencies he noticed very early on at the school. He said the audit confirmed the suspicions he had. He said that since the Board's meeting in February, the most senior person in the finance division went on leave and subsequently retired. He stated that the second tier individual proved that he was not up to the task during his probationary period and that person is no longer with the agency. In further

discussion, Mr. Mayer stated that prior to MMO coming back to the school to do a follow up review he hired an individual who has a good, solid background in state government with 12 years of accounting management experience and auditing in several different state agencies.

Governor Haley commented to Mr. Mayer that the Board members were serious when they said the school had 90 days and she noted that the procurement violations did occur under Mr. Mayer's watch. She further noted the agency is now asking for another 90 days. She said if the situation is not corrected she will ask the General Assembly through her executive budget to stop funding John de la Howe. She said the Board cannot continue to accept incompetence in regard to this matter. She commented that the meeting in February was as much of a wrist slap the Board could give and that she never thought the school would be standing before the Board again acknowledging it had more problems. Governor Haley commented in further discussion that regardless of what the school's mission is the school must responsibly account for how the money is being used to accomplish that mission or the Board will have to take action. Mr. Mayer said that he does not want to down play the issue at all. He said that with regard to the missing documentation, he is absolutely convinced that there is nothing of a criminal nature that is taking place. He noted that MMO has contacted vendors to ensure that past purchases have been legitimate. He stated he and his board of trustees take this matter seriously and they are on top of the situation. He said they have been very active in trying to resolve these issues.

Mr. Cooper noted that what he and others in the House have suggested is to combine John de la Howe and the Wil Lou Gray School under the Department of Juvenile Justice, thus, making it a cabinet agency.

Upon a motion by Senator Leatherman, seconded by Mr. Cooper the Board directed that the following actions be taken concerning the John de la Howe School, as recommended by the Division of Procurement Services:

1. The Board continue suspension of the John de la Howe School's procurement authority until the Board approves that it be restored;
2. The Division complete an audit of the paperwork from order point to payment for the procurements that are missing supporting documentation or that have not been approved by the Division as directed by the Board in the February 8, 2011, meeting;
3. The Division continue to review and approve all purchases for the school using the SCEIS system;

4. The Division review and approve all invoices for the School prior to payment using the SCEIS system (this will prevent the School from directly paying for goods and services that should be acquired using the purchase order system);
5. The Division conduct another complete audit in 90 days and, thereafter, report the results at the next scheduled Board meeting; and
6. The Division conduct customized procurement training for the School's financial and procurement staff.

Information relating to this matter has been retained in these files and is identified as Exhibit 13.

Secretary's Note: Prior to adjournment, Governor Haley commended Mr. Cooper for his service on the Board. She commented that he has done tremendous things for the State and on the Board. She also acknowledged Representative W. Brian White on joining the Board as the new Ways and Means Chairman.

Future Meeting

The Board directed staff to schedule a meeting for August 2011, in Room 252, Edgar A. Brown Building.

Adjournment

The meeting adjourned at 11:30 a.m.

[Secretary's Note: In compliance with Code Section 30-4-80, public notice of and the agenda for this meeting were posted on bulletin boards in the office of the Governor's Press Secretary and in the Press Room, near the Board Secretary's office in the Wade Hampton Building, and in the lobbies of the Wade Hampton Building and the Edgar A. Brown Building at 4:00 p.m. on Friday, June 10, 2011.]